

2015 RRDL Pilot Program Underwriting Standards
Version 6.25.15

Underwriting Factors	Standards for Legal Ownership Entities	Standards for Natural Person, Sole Proprietorship, or legal entity made up of only a Natural Person and his or her spouse, when applicable
Rent	Rents do not exceed RRDL limits per RRDL Guide (lesser of 80% AMI or rent affordable to local workforce as determined from DEED Wage Data).	
Vacancy	Vacancy rate will be underwritten at market rate or justified by historic operations with a minimum 5% vacancy	
Management and Operating Costs	The proposed management and operating expenses must be supported by: <ul style="list-style-type: none">• Actual operating data provided by the management company/developer for similar Projects• Circumstances and/or significant changes to the economics of the Project’s current marketplace, such as increased utility costs and Project insurance• Operating trends of the developer, owner, or management company, if applicable	
	The Borrower shall provide copies of operating budgets/ audited financial operating expense statements for at least two years, as long as the Project has been in operation for at least five years, to support the proposed management and operating expenses.	The Borrower must provide-IRS Schedule K-1 and Schedule E from the past two years to support the proposed management and operating expenses.
Cash Flow	Review past two years of professionally prepared operating budgets for the Project and prepare a 10 year cash flow analysis.	Review the Borrower's operating budget and full Internal Revenue Service (IRS) tax returns including Schedule K-1 and Schedule E for the past two years.
Credit Worthiness	Review the following to determine the Borrower's financial status and credit worthiness: <ul style="list-style-type: none">• Two or more years of accountant prepared financial statements or audited financial statements• Two or more years of complete tax returns for the borrowing entity, including Schedule K-1 and Schedule E• List all fixed obligations for which the Borrower has assumed personal liability	Review the Borrower's credit report to determine credit worthiness: <ul style="list-style-type: none">• An acceptable credit score from one of the three large national credit bureaus - 640 minimum score• Current on mortgage loan payments and up to date on real estate taxes• Have not filed or declared bankruptcy in the past seven years• No unsatisfied collections or judgments• Not party in a pending lawsuit• Project is not in foreclosure
Construction Contingency	Minimum of 7% for rehabilitation	
Low Income Rental Classification (LIRC) Payment In Lieu of Taxes (PILOT)	Rental properties subsidized under a federal or state government program or meeting certain rent and income restrictions are eligible for the lower class rate. To qualify, rent and income must be restricted to 60% AMI for term of the loan. All properties that are eligible for LIRC or PILOT must apply for the lower tax status.	
Other Financing Terms		
Commercial Loan Primary Mortgage with renegotiated rate every 3-7 years	Properties with variable rate commercial loans are eligible when all the following conditions are met: 1. The initial loan amortization schedule, as well as any revised or modified amortization schedule, must be established to fully amortize the commercial loan or provide documentation indicating that no balloon payment will be due before the maturity date of the RRDL Loan. 2. The commercial loan repricing requirements will not require Minnesota Housing to re-subordinate the RRDL Loan. All other RRDL loan conditions must be met. [RRDL Guide]	